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SUBJECT: IMPACT OF RISING FOOD/COMMODITY PRICES - OMAN

REF: A. STATE 39410

[1](#)B. MUSCAT 293  
[1](#)C. MUSCAT 148  
[1](#)D. MUSCAT 123

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Summary  
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[1](#)1. (SBU) The Omani government is grappling with soaring inflation, with the price of some food products reportedly rising by as much as 47% over the past year. Responding to public pressure, the government has augmented public sector wages, capped rental increases, and warned wholesalers about hoarding and price gouging. It has shied away from introducing significant food subsidies; rather, it has worked with suppliers to develop affordable packages of food staples. To avoid currency speculation, which could push food prices higher, the government has indicated that it will retain its currency peg to the dollar at the current rate of exchange for the immediate future. Media outlets have been predictably complimentary in reporting the government's efforts to control rising prices, which has helped quell public complaints over escalating costs. End Summary.

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Inflation-Driven Increases  
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[1](#)2. (U) In general, revenues from high oil prices have led in part to higher demand levels and subsequent across-the-board price increases in food, building materials, labor, and real estate throughout the region. The Ministry of National Economy reported that the overall annual inflation level in Oman for February 2008 was 10.2%, the highest it has been in 16 years. Prices for food, non-alcoholic beverages, and tobacco collectively rose 18.1%, but food products accounted for most of the increase. Leading the way was fish, the price of which increased by 47.4%, followed by oil and fats at 35.6%, cereals at 29.1%, eggs at 26.1%, milk at 21.6%, and meat and poultry at 18.1%. Non-alcoholic beverages only increased by .5%, followed by vegetables at 3.6% and tea at 5.2%.

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Under Pressure  
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[1](#)3. (U) Under pressure to take action, the Sultan responded to rising costs in February by mandating an increase in public sector salaries based on grade status. Those at the bottom of the pay scale received a salary increase of 43%, while mid-level grades obtained raises ranging from 7-12%. Those

at the higher end of the salary scale received a 5% bump, while stipends for government retirees saw a 10% increase over current levels.

¶4. (U) The Sultan also ordered an increase in pension rates for government retirees, effective from the end of March ¶2008. Following a similar tiered format for the recent public sector wage hikes, the Sultan decreed a 35% increase for those receiving the minimum monthly pension amount, a 17% increase for those receiving between 100-200 rials (USD 260-520) per month, a 10% increase for those receiving between 200-300 rials (USD 520-780), and a 5% increase for those receiving over 300 rials (USD 780). The Sultan also granted an exemption for retired and active personnel in the armed forces and the Royal Guard of Oman from paying the balance of armed forces housing loans up to 3,000 rials (USD 7,800) for those earning or receiving less than 300 rials per month. For the remaining value of the loans over this amount, the Sultan granted a 50% exemption.

¶5. (U) In addition, the Sultan called for stronger monitoring of retailers for price gouging. The media carried a stern warning from Oman's Attorney General that price manipulators would be punished by up to two years in prison and a \$1,300 fine, along with reports that the Ministry of Commerce and Industry had launched raids on local bakeries. The Minister of Commerce and Industry followed up by urging merchants to recognize their "social responsibility" with regard to the price of basic food products. As a result, ATO Dubai reported that importers agreed to prepare and provide 5,000 boxes of food products per month for two months (total of 10,000 boxes) at below-retail prices. Each box contains rice, cooking oil, milk powder, sugar, tea, chickpeas, lentils, pasta, ketchup, and hot sauce. The boxes run \$36 during the two-month period, which ends June 20. Both Omanis

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and expatriates are eligible to buy the boxes at 75 retail outlets in Oman. To prevent hoarding by wholesalers, the Ministry of National Economy has lent personnel to help Commerce and Industry officials conduct inspections of warehouses.

¶6. (U) The government has taken other steps to ease price hikes. For example, as a majority shareholder in Oman Flour Mills, the government lowered the profit margin on the sale of flour. It is also looking at ways to better enforce its property rental cap, which is currently set at 15%. Oman does not subsidize food prices, and in general, its leadership is reluctant to establish them.

¶7. (U) The government is also turning to an "Origin Oman" program to encourage residents to buy local products, which are often cheaper than imports. One media outlet recently carried a front-page article entitled "How Far Did Your Pizza Travel?" to point out that food costs have been driven upwards by the long distances ingredients now travel. Creators of the campaign are working with local companies to raise awareness of their products in Oman.

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No Change in Monetary Policy  
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¶8. (SBU) The government has said publicly that it is committed to maintaining its currency peg to the dollar at the current rate of exchange, in spite of the February inflation report. Policymakers, while acknowledging the difficulty in maintaining the peg, believe that a revaluation would not temper inflation in the wake of surging regional demand. One Central Banker pointed out that the dollar's weakness accounts for only a fraction of price increases, attributing the rest to demand-driven increases in the costs of building materials and labor, among others. To mop up excess liquidity, the Central Bank has increased commercial bank reserve requirements from 3% to 5% and issued more

certificates of deposit. Nevertheless, upward pressure on prices remain - Oman's money supply increased 40% over the past year, the stock market appreciated 16% in 2008, Omani land values have skyrocketed, and the government continues to spend significant sums of its budget surplus on expensive development projects.

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Public Perceptions  
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19. (SBU) Media outlets, tightly monitored by the government, have been complimentary in their reporting of the government's initiatives. The laudatory coverage has diffused complaints over low pensions that have been simmering for years. Similarly, the splash announcement of a public-sector salary increase allayed criticism from a sizable contingent of disgruntled Omanis, the great majority of whom are on the government payroll. Positive public responses reflect the government's use of a compliant media to quell complaints on food costs.

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